CHANGE.
CHICAGO HOUSING AUTHORITY

March 14, 2012

ITEM NO. 1

AUTHORIZATION TO ENTER INTO CONTRACTS WITH FIRST SPECIALTY INSURANCE, ILLINOIS UNION INSURANCE, AND ALLIED WORLD ASSURANCE COMPANY (US) FOR THE PRIVATE MANAGER INSURANCE PROGRAM'S GENERAL LIABILITY, EXCESS LIABILITY, UMBRELLA LIABILITY INSURANCE COVERAGES

To the Honorable Board of Commissioners:

RECOMMENDATION

It is recommended that the Board of Commissioners ("Board") authorize the Chief Executive Officer, or his designee, to enter into contracts, through AON Risk Services Central, Inc. ("AON"), CHA's Broker of Record, with First Specialty Insurance Corporation ("First Specialty") for general liability insurance in the amount of $541,828, Illinois Union Insurance Co. ("Illinois Union") for excess liability insurance coverage in the amount of $475,524, and Allied World Assurance Company ("AWAC") for umbrella insurance coverage in an amount of $186,480, for an aggregate total amount of premiums of $1,203,832 for the period of April 1, 2012 through March 31, 2013 for CHA's Private Managers Insurance Program (the "PMIP").

RECOMMENDATION SUMMARY

Funding: General Fund

Vendor:	**First Specialty Insurance Corporation** 5200 Metcalf Ave Overland Park, KS 66202
Contract Type:	Insurance Coverage – General Liability
Contract Amount:	$541,828
Contract Period:	April 1, 2012 through March 31, 2013
Option Period:	N/A
M/W/DBE Participation:	N/A - See attached waiver
Section 3:	N/A Considered Supply & Delivery
Vendor:	**Illinois Union Insurance Co.** 535 W. Monroe St. Chicago, IL 60661
Contract Type:	Insurance Coverage – Excess Liability
Contract Amount:	$475,524
Contract Period:	April 1, 2012 through March 31, 2013
Option Period:	N/A

M/W/DBE Participation:	N/A - See attached waiver
Section 3:	N/A Considered Supply & Delivery

Vendor:	**Allied World Assurance Co,** 311 South Wacker Drive, Suite 1100 Chicago, IL 60606
Contract Type:	Insurance Coverage – Umbrella Liability
Contract Amount:	$186,480
Contract Period:	April 1, 2012 through March 31, 2013
Option Period:	N/A
M/W/DBE Participation:	N/A - See attached waiver
Section 3:	N/A Considered Supply & Delivery

General Background

The Property Manager's Insurance Program, known as PMIP, is a CHA controlled insurance program that ensures that the Authority has the necessary insurance protection for general liabilities associated with the management of its housing portfolio. This program provides the most cost effective insurance solution for the portfolio, while maintaining coverage standards that are difficult for property management firms to procure individually.

All costs associated with the program (i.e. insurance premiums, claim and broker administration fees), are deducted from the participating Private Property Management Firm's operating budgets.

MBE/WBE/DBE participation has been waived, as currently there are no MBE/WBE/DBE insurance companies that can meet CHA's standard criteria. Insurance providers must possess assets in excess of $1 billion and carry a minimum rating of "A" by the A.M. Best Rating Guide; this is equivalent to an excellent credit rating for an insurer.

Pre-Plan For Transformation History

Prior to the Plan For Transformation, the general liability risks of the Authority were, at times, uninsurable. In 1985 and 1986, the Chicago Housing Authority had been without Excess General Liability, Auto Liability, and Public Officials Liability insurance because of cancellation of these policies. In spite of attempts to acquire replacement coverage, none was available. Other housing authorities were also without these coverages. In order to secure some semblance of coverage, the Chicago Housing Authority joined other housing authorities and procured insurance as part of the Housing Authority Risk Retention Group in 1987. This group provided an opportunity for PHAs to secure these necessary insurance coverages.

PFT Impact on Insurance Procurement

The Plan For Transformation (PFT) paved the way for considerable improvement in living conditions for CHA residents. Densely populated high-rise developments that were not only difficult to maintain, but did not sustain safe living environments, were

razed. A direct result of the PFT was a dramatic improvement in living conditions as well as improved claims experience throughout the portfolio.

As part of the PFT, a decision was made to outsource property management functions to private firms. As part of this process, management liabilities were contractually transferred away from the Authority to the Private Property Managers (PPM). PPMs thus became responsible for procuring general liability insurance, among other coverages. Inconsistencies in coverage obtained by PPMs, including inferior policy forms, varying retention levels, and high costs leading to non-payment and cancellation of coverage, resulted in almost no success in tendering claims to the PPM insurers. The resulting claims and litigation expense then fell back to the Authority and CHA faced substantial exposure.

PMIP Development 1999-2008

The Private Manager's Insurance Program (PMIP) was designed in 1999 to afford insurance coverage for the property management operations of the Chicago Housing Authority. The program is considered an 'owner controlled insurance program', allowing the Authority to use its economies of scale to purchase coverage in the commercial insurance marketplace, and direct coverage necessary to protect the interests of the Authority. This program allowed CHA to insure all of its properties.

However, The CHA's exposures remained expensive to insure because of many factors, even when globally procured. The general condition of the portfolio, crime, and serious injury proved difficult to control for the fifteen (15) different management firms, which resulted in poor and unprofitable loss experience for insurers. As a result, CHA paid expensive premiums and faced a $750,000 self insured retention for each claim.

PMIP 2008 - Current

In 2008, the number of PPM firms managing the assets was reduced from fifteen to five. This was a strategy that allowed the top-performing firms to provide better management of CHA assets from an operational and safety control perspective. The drastic change in the portfolio composition led to substantial improvement of the physical portfolio and claims experience. The number of claims and amounts paid began to decline, and as a result, the Authority began to attract more attention from insurers. Improved physical attributes as well as reduced claims activity were contributing factors.

In 2009, the scope of coverage for the PMIP was reduced, which resulted in further reductions of expense. Prior to this policy period, Workers' Compensation and Auto Liability exposures were covered by PMIP. All property management contracts were renegotiated to transfer WC and Auto Liability exposures to the PPMs.

In 2010, competition from insurers proved to benefit the Authority with lowered premiums by 32%, and reduced per-claim retentions (deductible) from $750,000 to $250,000. Although this carrier insured the CHA for only one year, resulting reductions in premium and retention levels have been maintained.

Cost and Feasibility of PMIP

In 2010, the CHA again explored the feasibility of the PMIP by tasking the PPM firms to obtain individual quotes for their managed portfolio. The feasibility analysis was performed in conjunction with CHA's insurance broker, AON, CHA's Legal, Finance, Risk and Asset Management departments, and the PPM firms. The PPMs were given coverage specifications to secure these quotes for coverage.

Quotes received by the PPMs had inconsistent and unfavorable coverage terms, and several firms were unable to secure quotes for the Authority's high risks. The PMIP approach showed that the insurance expense was approximately $900,000 or 30% less than what the individual PPMs were quoted. Coverage inconsistencies and varying retentions inherent in coverage sought by the PPMs was also viewed as problematic. As a result, CHA elected to continue the PMIP program.

Recent benchmarking data versus private sector companies do show that the Authority's cost for Excess and Umbrella coverages are more expensive when compared to private companies. Public Housing Authorities pose extremely difficult risks to insure, and also unique in that the exposure is multi-family and senior only, as opposed to other large real estate firms whose insurable exposures may be diluted by office, retail, hospitality, and industrial risks.

The Property Managers Insurance Program remained the most cost effective solution for General Liability coverage in the insurance market, and the liability exposures of both the Authority and Private Property Managers can be controlled.

Renewal Strategies and Procurement

Both AON and CHA Risk Management have made concerted efforts to increase the marketability of the Authority's PMIP program to insurers. Property tours were conducted with underwriters; portfolio composition information was presented in formats previously unavailable; and, internal claims information and analysis were provided to the insurers.

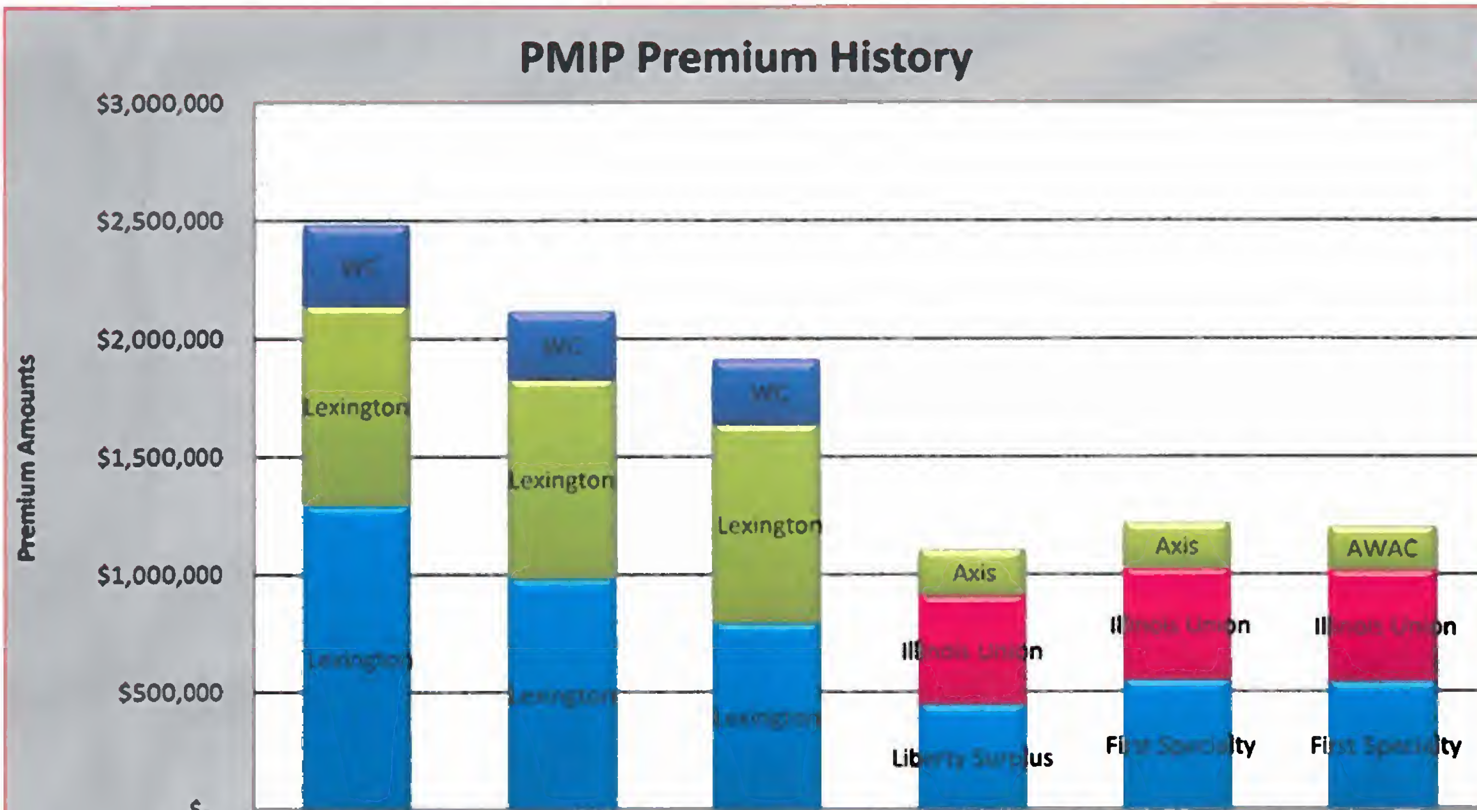
Most interested insurers are surplus lines carriers, who insure high risk entities. The program received limited interest from admitted insurers, who have less appetite for risk but generally more favorable pricing. Although the current renewal has garnered attention from new insurance carriers, willing participants were unable to meet expiring pricing and retention levels. Insurers that could not meet expiring pricing targets chose to not incur underwriting costs and therefore did not submit quotes, even though our exposures were within their underwriting guidelines. Entities such as the Housing Authority Risk Retention Group (HARRG) have previously declined to quote CHA exposures as their focus is now on small to mid-size public housing authorities.

Consequently, CHA was able to secure only one quote for the primary layer of General Liability coverage (with reduced pricing from expiring year), one quote for the Excess layer of Liability coverage, and two quotes for the Umbrella layer of liability coverage.

As the Plan For Transformation matures, along with improving claims experience, implementation and focus on risk control programs, the Chicago Housing Authority should benefit in future renewals as insurers become more comfortable with CHA exposures.

Year Over Year Cost Comparison

The chart outlines a six (6) year history of the PMIP premiums. The coverage limit has remained constant with a $22 million general aggregate limit of coverage. Self Insured Retentions (SIR), or deductible per occurrence, is identified as well as the insurer providing coverage for each year.



	4/1/07 - 08	4/1/08 - 09	4/1/09 - 10	4/1/10 - 11	4/1/11 - 12	4/1/12 - 13
WC & Auto	$341,357	$284,954	$271,096	$-	$-	$-
Excess	$845,376	$845,376	$845,370	$196,840	$196,840	$186,480
Umbrella	$-	$-	$-	$465,164	$475,524	$475,524
General Liability	$1,295,000	$984,200	$792,540	$445,480	$549,080	$541,828

Premium	$2,481,733	$2,114,530	$1,909,006	$1,107,484	$1,221,444	$1,203,83
SIR per Occurrence	$750,000	$750,000	$750,000	$250,000	$250,000	$250,000

PROCUREMENT HISTORY

Aon directly and indirectly (through one wholesaler) solicited requests for insurance premium quotes from 18 insurance carriers in January 2012 and requested that their quotes be submitted to Aon in early February 2012. The incumbent general liability carrier, First Specialty, was the only insurance company to submit a premium quote for the general liability primary coverage layer, but also expanded coverage for certain pollution perils with a slight decrease in pricing, $541,828 v. $549,080 for the contract year about to expire. All other insurers declined to provide premium quotes for CHA's PMIP due to the class of business (multi-family and public housing), inability to meet expiring pricing or non-competitive retention levels.

The incumbent carrier for the excess liability layer, Illinois Union, offered to renew at the same premium amount, $475,524, and was also the only insurer to provide a quote for this layer of coverage. CHA received two quotes for the Umbrella Liability layers, one from incumbent carrier, AXIS, and also AWAC. AXIS will be replaced by AWAC, which offered the same coverage at a $10,000 savings with a premium cost of $186,480. The aggregate total premium is $1,203,832, representing an overall decrease of 1.4% in premium costs for the PMIP program from the previous contract year.

Based on the foregoing, it is in the best interest of the CHA to enter into contracts with First Specialty Insurance Company for general liability, Illinois Union for excess liability, and AWAC, in the aggregate amount of $1,203,832 for the CHA's PMIP for the period of April 1, 2012 through March 31, 2013.

RESOLUTION NO. 2012-CHA-17

WHEREAS, the Board of Commissioners has reviewed Board Letter dated March 14, 2012, entitled "Authorization to enter into contracts with First Specialty Insurance, Illinois Union, and Allied World Assurance Company, for the Private Managers Insurance Program's General Liability, Excess Liability, and Umbrella Liability Insurance Coverages";

THEREFORE, BE IT RESOLVED BY THE CHICAGO HOUSING AUTHORITY

THAT, the Board of Commissioners authorizes the Chief Executive Officer or his designee to enter into contracts for the Private Managers Insurance Program, through Aon Risk Services Central, Inc., with: (1) First Specialty Insurance (General Liability) in the amount of $541,828; (2) Illinois Union (Excess Liability) in the amount of $475,524; and (3) Allied World Assurance Company (Umbrella Liability) in the amount of $186,480 for an aggregate total amount of $1,203,832 for the period April 1, 2012 through March 31, 2013.

APPROVED
MAR 20 2012
Board of Commissioners